

# City of Detroit

## OFFICE OF THE AUDITOR GENERAL

# Audit of the Budget Department

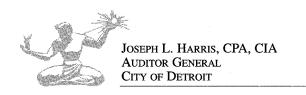
December 2003

## Audit of the Budget Department

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#### **MEMORANDUM**

DATE:

January 23, 2004

TO:

Honorable City Council

FROM:

Joseph L. Harris

**Auditor General** 

RE:

Audit of the Budget Department

C:

Mayor Kwame M. Kilpatrick

Attached for your review is our report on the audit of the Budget Department.

This report contains our audit purpose, scope, objective, and methodology; background; the status of the prior recommendation; audit finding and recommendation; and conclusion. The Budget Department did not provide a written response to our audit prior to the publication date.

We appreciate the assistance that we received from the employees of the Budget Department.

#### AUDIT PURPOSE, SCOPE, OBJECTIVES, AND METHODOLOGY

#### **Audit Purpose**

This audit was performed under the Office of the Auditor General's (OAG) Charter mandate to audit financial transactions of all City agencies. The OAG performed an audit of the adequacy of control procedures to properly record transactions of payroll, cash receipts, voucher disbursements, fixed assets, and imprest cash; as well as compliance with year-end closing procedures.

#### Audit Scope

The scope of our audit was limited to an assessment of the Budget Department's control procedures for transactions of payroll, cash receipts, voucher disbursements, fixed assets, and imprest cash; and a review of compliance with the year-end closing procedures. We focused our audit on the weaknesses discovered during the assessment, and the status of the prior audit finding. In addition, we followed up on the lack of encumbrance controls on personal services contracts noted during another audit.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external quality review of the Office of the Auditor General within the last three years.

#### **Audit Objectives**

Our audit of the Budget Department had the following objectives:

- 1. To assess the Budget Department's internal controls relating to:
  - a. Current financial operations.
  - b. Compliance with policies, plans, procedures, laws and regulations.
- To determine whether the Budget Department has adequate internal accounting controls.
- 3. To determine whether the Budget Department implemented the prior audit recommendation or otherwise resolved the finding.

#### **Audit Methodology**

To accomplish the audit objectives, our audit work included the following:

- We reviewed City directives, policies, and procedures, and interviewed Budget Department management and personnel to gain an understanding of the Department's internal controls.
- We evaluated internal controls for payroll, cash receipts, voucher disbursements, fixed assets and imprest cash.
- We examined a judgmental sample of transactions that we considered satisfactory to achieve our objectives.
- We reviewed each schedule included in the agency's year-end closing package for reasonableness.

#### **BACKGROUND**

The Budget Department is responsible for the preparation of the City's annual operating and capital improvement budgets and the five-year capital agenda. Critical functions performed by the Department are monitoring City revenues and expenditures throughout the fiscal year, and relating financial activity to the plan expressed by the budget.

The Budget Department assists other City agencies in the development of program objectives and performance measures, and in the conduct of financial planning to achieve those objectives.

In addition, the Budget Department advises City agencies on impending budget matters, evaluates proposed modifications to the budget, and assists in preparing any budget adjustments.

The Budget Department is directed by City Charter to conduct management audits, which analyze and evaluate the operations of agencies.

The Department's budgeted appropriations for the 2001-2002 fiscal year were \$3.03 million and budgeted staffing levels were 33. For the 2002-2003 fiscal year, budgeted appropriations were \$2.98 million with a budgeted staffing level of 32.

#### STATUS OF PRIOR RECOMMENDATION

The result of our review of the prior audit finding and related recommendation follows. The date shown indicates the audit report in which the recommendation or part thereof first appeared.

#### 1. Annual Budget – Reporting System:

(November 13, 1998) We recommended that the Budget Department implement a budgetary reporting system capable of providing complete and detailed documentation and references that will readily substantiate and track the annual revised budget of each City agency and fund in the City's accounting system.

#### **Results:**

The Budget Department has implemented the recommendation.

The City implemented a financial system known as DRMS (Detroit Resource Management System) in 1999, which replaces the former FICS (Financial Information Control System) accounting system. This computerized reporting system allows the Budget Department to substantiate all presentations of the annual budget in a timely basis.

Utilizing a conversion system from BRASS, the City's budgeting software, to DRMS, the Department has the ability to make approved budget modifications and adjustments for the initial input of the annual budget, as well as subsequent inputs to the revised annual budget.

The computerized reporting process allows the Department to readily support all changes made to an agency's or fund's budget with detailed documentation, in addition to affording the Department easy access to the system for reference purposes.

#### AUDIT FINDING AND RECOMMENDATION

Our follow-up on the lack of encumbrance controls on personal services contracts, noted during another audit, resulted in the following finding and recommendation:

## 1. Develop Controls to Limit Spending on Multi-Year Personal Services Contracts to the Approved Amount:

Personal Services Contracts that span fiscal years are not restricted by encumbrance controls.

Personal Services Contracts are processed through the City's Payroll and Personnel System (PPS). Although PPS lacks the application edits to restrict payments to a budgeted appropriation, a compensating manual control does exist that properly restricts payments for personal services contracts when the contract falls within a fiscal year. However, when the personal services contract carries over into the next fiscal year, Payroll Audit is unable to prevent the payments from exceeding the current year's budgeted amount.

Appropriate controls should exist to ensure that expenditures do not exceed budgeted appropriations.

We recommend the Budget Department implement measures to ensure that agencies are unable to exceed budgeted appropriations.

#### CONCLUSION

Further review and testing did not reveal material weaknesses in the Budget Department's system of internal control. We noted the following instance of noncompliance with established City policy pertaining to imprest cash:

1. The Budget Department did not perform an independent audit of its imprest cash fund at least once every three months, as required by the City's Imprest Cash Manual.

To strengthen its compliance, the Budget Department should implement procedures to conform to the City's policy on imprest cash.

To assist other agencies in their compliance efforts, the Budget Department should implement procedures to prevent overspending on personal services contracts.